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PRESENTATION

Operator

Welcome to Ryman Hospitality Properties Second Quarter 2022 Earnings Conference Call. Hosting the call today from Ryman Hospitality Properties are Mr. Colin Reed, Chairman and Chief Executive Officer; Mr. Mark Fioravanti, President; Ms. Jennifer Hutcheson, Chief Financial Officer; and Mr. Patrick Chaffin, Chief Financial (sic) [Operating] Officer. This call will be available for digital replay. The number is (800) 839-1246 with no conference ID required. (Operator Instructions)

It is now my pleasure to turn the floor over to Ms. Jennifer Hutcheson. Ma'am, you may begin.

Jennifer L. Hutcheson - *Ryman Hospitality Properties, Inc. - Executive VP, Corporate Controller, CFO & CAO*

Good morning. Thank you for joining us today. This call may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, including statements about the company's expected financial performance. Any statements we make today that are not statements of historical fact may be deemed to be forward-looking statements. Words such as believe or expect are intended to identify these statements, which may be affected by many factors, including those listed in the company's SEC filings and in today's release. The company's actual results may differ materially from the results we discuss or project today. We will not update any forward-looking statements, whether as a result of new information, future events or any other reason. We will also discuss non-GAAP financial measures today. We reconcile each non-GAAP measure to the most comparable GAAP measure in exhibit to today's release.

I will now turn the call over to Colin.

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Thank you, Jen, and good morning, everyone. The second quarter was another remarkable quarter for our company in our hospitality business, in particular. The momentum we generated in our hospitality business during the first quarter as we rebounded from the low point of the Omicron wave in January, carried through to several new record performances in the second quarter. Let me list some of these milestones for you. Second quarter was our best quarter ever in the history of the Gaylord brand for transient ADR. At $283, this was an increase of 31% over the second quarter of both '19 and '21. The second quarter was also a record all-time for us for both total revenue and total adjusted EBITDAre for our Hospitality segment and those records were not by a narrow margin. Second quarter adjusted EBITDAre was a total of $22 million higher than the next best quarter, and our adjusted EBITDAre margin was also at an all-time record of 125 basis points above the next best quarter. Regarding our forward production, this second quarter saw the highest ADR on new definite bookings for all future years of $243. On a monthly basis, we also saw a few records within the quarter. For example, April was the single best most profitable month for adjusted EBITDAre for the Gaylord Hotel brand and the second highest margin month on record. And at the individual hotel level, the Gaylord Rockies gained a distinction of setting the single highest occupancy month on record for any Gaylord's hotel when it reached 92.4% for the month of June. From just about every angle you look, our results this quarter were a testament to our capital allocation strategy and the actions that we've taken over the last several years to meet the challenge of the pandemic head on and to position our hotel business to thrive in the eventual recovery. These steps included in retaining over 80% of our sales force, even if the hotels were closed and working hand-in-hand with our core customer, the meeting planner to rebook their business. We also continued critical planned capital investments into expansions, rooms and meeting space upgrades, reconfigured F&B outlets and other amenities. We streamlined our operating models for approved efficiency to better face rising wages and other inflationary costs. And we reimagined in many respects, our approach to leisure programming, finding new ways to attract and retain premium leisure demand around our traditional group business. All this work was manifested in the second quarter in these figures that I've just shared with you. And I couldn't be more pleased with the job that our team and the Marriott teams in our hotels put forth to produce these results. This is a good moment to remind everyone that this indeed was still, in essence, a recovery quarter for us despite all of these records. We accomplished this performance with 5 fewer occupancy points in the quarter than in the second quarter of '19, our last pre-pandemic year. This tells us we have more opportunity ahead to build on this success as occupancy finally gets back to prepandemic levels, and we continue to set our sights on new records in the years to come, particularly in an environment where new supply growth remains limited and our on-the-books pace for group rooms' revenue in the years ahead exceeds pre-pandemic levels.

Now I know what some of you folks are thinking about. So let's address it head on before I go into any more about any more detail about the quarter and our outlook. Now some of you are thinking, well, these records are nice, but that's a few weeks ago. And don't you know there's a big recession coming, inflation is out of control and so on. And I think that reflects some misunderstanding around our business and the current backdrop compared to past economic cycles. As I just noted, our hospitality business is still in a recovery period. The desire and the demand to meet amongst the majority of our customers remains high and pent up. Many of our customers have not held their annual meetings. Events critical to their mission and even financial health, in many cases, for literally over 2 years. That is a very different set of circumstances than we were going into the 2009 period, and the great financial crisis was unfolding. What we're hearing from our customers right now, and Patrick can go into that a little bit more, is that they are proceeding with their plans. Certainly, they read the news, too. And a few have noted that they're keeping an eye on the equity markets or the macroeconomic data. But right now, on a net basis, the need and the pressure to resume meetings is winning out and that is evidenced, for example, in our recent production. In the second quarter, we booked 600,000 group room nights, which was only 8% below the second quarter of '19. And as I mentioned at the top of the call, ADR on these new bookings was an all-time time record, 15% higher than the second quarter of '19 and 14% higher than the second quarter of last year. And by the way, our production for July again showed a pretty strong segment of play. So we are seeing solid interest from our customers and our forward book of business as a result remains in excellent shape. As of June 30, we had 43.9 points of net occupancy -- net group occupancy on the books for 2023. This is 1.2 points higher than we had at the same time last year looking ahead to '22 and it's only 0.07 points less than we had in '18 for '19, and that is despite 3% more rooms inventory for the Gaylord Palms expansion in the denominator today compared to this point in 2018. But more importantly, you must factor in the rate growth that we've seen over the last couple of years in our production. Our net group ADR on the books for next year is 3.8% higher than our T+1 position at this time last year and 10% higher than our T+1 position in '18. In total, we had on June 30, 6.6% more group revenue on the books for next year compared to this time in '21 and a 11.5% more than we had at the midpoint of '18 looking into '19. So bottom line, we feel great about where we stand right now and about our business and the fundamentals behind it, regardless of the economic backdrop that we can't control. And perhaps this is a good time to note that we also collected $15 million in cancellation -- $15 million, I should say, in cancellation and attrition fees in the second quarter, putting our running total to over $110 million mark since the start of the pandemic. Now of course, we were glad to see that this number trended down month-to-month in the quarter as we moved further away from the Omicron impact and we'd like to see this continued downwards as the group recovery continues. But these fees are an important feature of how we design our business to the weather tough times. So I want to remind you of it as long as I'm addressing concerns about recessionary risks. Now Mark will discuss some additional color by each property. But suffice of me to say we were very pleased with our hospitality business this quarter. And it almost makes you forget that it was only 6 months ago where we were at 32 points of occupancy for the month of January. Yet here we are, even after the bite of the Omicron wave took out of our first quarter, giving full year guidance -- adjusted guidance for EBITDAre for this segment that is still on par to 2019 levels, which I'll let Jennifer walk through in more detail.

Turning to Entertainment. The most exciting news was the execution of the acquisition of Block 21 in the quarter and the subsequent closing of our strategic investment with the Atairos and NBCUniversal, which values the new combined Opry Entertainment Group of Block 21 of just over $1.4 billion. On a segment basis, our Entertainment business delivered $22 million of adjusted EBITDAre in the second quarter, which, while it ended up being towards the lower end of our guidance was nevertheless, a record quarter for this segment as well, both as reported and on a same-store basis. Compared to our initial expectations, a few factors contributed to the result not being an even bigger record: One is the slight delay in closing Block 21 versus our original timetable, which not only reduced the contributions of Block 21 for the second quarter, but also means we will get a bit later start on the many growth initiatives we have planned for this asset, some of which will now be felt more in '23 instead of later this year as we originally had planned for.

Turning to our Grand Ole Opry business. We've seen a slower recovery than expected in the customer segment that we call, tour and travel or what is more easily described as organized bus fills who buy tickets as part of the package itineraries. Also at the Opry, we've experienced some reduced availability of top drawing artists in Nashville during the summer, as many of them have accelerated their pent-up national and international touring activity due to the faster recovery due to the faster recovery from Omicron, I'm sorry, I am reading too quickly here. While that's certainly great news for the artists and the millions of country lifestyle consumers visiting their shows, it does take away some availability for us to showcase them at home as often we would like here in Nashville. And finally, there's been widespread softness right now in the advertising market, which is down from top line revenue in our Circle joint venture. Even as Circle ratings have shown nice increases around our original content and the venture's costs have been following the plan that we had in place, this confluence of factors is why we brought our guidance for the segment down a bit to reflect that impact for the full year. They're still expecting a record year for profitability for this business. And when you compare what we've achieved in the second quarter to the same time in 2019 on a same-store basis. Our core entertainment portfolio delivered no less than 35% adjusted EBITDAre growth compared to prepandemic levels. Now our focus is solidly on getting to work implementing our exciting plans for Block 21 and the ACL Live theater under our ownership. We're also clear to commence construction on our Ole Red Las Vegas location right in the heart of the strip, which we expect to complete in the early fall of next year. And we're now actively engaged with our partners at Atairos and NBCUniversal on a roadmap of strategic initiatives across the business on which we look forward to sharing more as we move forward together.

I will pause here to hand over to Mark to get into a little bit deeper information on the hotel business and then to Jennifer to update our balance sheet. Mark Fioravanti.

Mark Fioravanti - *Ryman Hospitality Properties, Inc. - President & Director*

Thanks, Colin. Good morning, everyone. As Colin has noted, this was an excellent quarter for our hotel business with several all-time records achieved, but let me just take a moment to comment at the property level on some of the specific drivers of the performance. While the Gaylord Rockies led the brand in occupancy for the quarter at 76.6%, Opryland, the Palms and the Texan all had similarly strong performances with occupancies above 74%. The Palms and Texan finished within 2 to 3 points of second quarter 2019 levels, and I would note that the Palms' occupancy performance includes 300 additional rooms, a 21% increase in that property's available rooms. The Rockies' occupancy was up 8 points as 2019 was its first year of operation, and the hotel was not was stabilized. And while Opryland trailed its 2019 performance by 6 points, it's important to note that Opryland had a tough comp as occupancy in the second quarter of 2019 exceeded 81%. All 4 hotels had excellent ADR growth over the second quarter of 2019, ranging from 15.6% at the Rockies, up to 22% at the Texan, which in each case was notably led by transient segment. Versus the second quarter of 2019, the Rockies' transient ADR grew 46.5%; the Palms, 39.9%, followed by Opryland at 37% and the Texan at 36.5%. Group ADR also performed well, growing on average 11.5% across the 4 hotels. All 4 hotels delivered very good outside their own spend from groups in-house with other RevPAR detecting up 9.3%; the Palms, 22.5%; Rockies, 26.7%, all compared to the second quarter of 2019. Opryland lagged the leaders in other RevPAR is up 1.2% as the mix shift from corporate to association room nights led to more modest growth in outside the room spending. In addition, Opryland was the only property to experience a decline in attrition and cancellation revenue as Opryland received several large cancellation fees in the second quarter of 2019 and were well above historic norms. The combination of strong leisure ADR, robust outside-the-room group revenues, including attrition and cancellation fees, all on top of our operational improvements delivered strong flow-through on incremental revenue at the Palms, Rockies and Texan, ranging from 49.7% at Palms to 65.3% at the Texan when compared to 2019. Opryland's margin and flow-through versus 2019 was challenged by the group mix and the decline in fee collections. Finally, I want to comment on the National because what we saw in the financial performance there was quite encouraging to us as the DC market continues to recover. When we look at this hotel's overall margin and flow through, we're clearly seeing the positive impact of our capital investment and the operational improvements we have undertaken during its extended COVID shutdown. While the National's occupancy trailed the second quarter of 2019 by 17 points, I would note that like Opryland, the hotels faced a very tough 2019 comp of 81.4% occupancy. And despite this reduction in occupancy, the National's adjusted EBITDAre margin was only down 2% compared to the same period. In fact, if you exclude the interest we received on the Gaylord National bonds, margins at the hotel level were in fact comparable to 2019 levels, down only 60 basis points, despite 17 fewer points of occupancy. This tells us the new staffing model and investments we've made in F&B re-concepting are beginning to pay dividends. Specifically, food and beverage was $2.5 million lower than the second quarter of 2019 due to the reduced occupancy. However, food and beverage profit was up $1 million. This is really good news and validates much of the hard work that went into addressing the challenges at the National over the last 2 years. In terms of what we're seeing in the labor market and staffing levels, we did see year-over-year wage rate inflation in the quarter at an average of 19% across the portfolio. These increases have been offset by rate and pricing increases, improvements in hours per occupied room and efficiencies in our property leadership structure. We feel comfortable with our current staffing levels relative to our targets. And as was our practice prior to the pandemic, where we had difficulty filling roles, we rely on contract labor. So overall, we feel good about our ability to continue to navigate any pressures in the labor market by remaining a preferred employer and creating a culture to retain the best people and by doing so, deliver great value to our guests so they return time and time again.

Now let me turn it over to Jennifer to provide a balance sheet and liquidity update as well as our updated guidance.

Jennifer L. Hutcheson - *Ryman Hospitality Properties, Inc. - Executive VP, Corporate Controller, CFO & CAO*

Thank you, Mark. In the second quarter, the company generated total revenue of $470.2 million and net income to common shareholders of $50.3 million or $0.91 per fully diluted share. The company closed its acquisition of Block 21 for $255 million in the quarter, including contract price adjustments and the assumption of $136 million of CMBS debt. Subsequently, we received net proceeds of $296 million from the sale of 30% of Opry Entertainment Group to Atairos as well as the recapitalization of OEG with a new $300 million term loan. We used these proceeds to retire our $300 million Term Loan A and other borrowings under our corporate revolving credit facility. This left the company with an undrawn revolver, a new undrawn $65 million revolver at OEG and $179 million of unrestricted cash at quarter end for total liquidity of $934 million, excluding $10 million of letters of credit. With total net debt of $2.68 billion and trailing 12-month adjusted EBITDAre of $408 million, this puts our current net leverage at approximately 6.6x. And based on the midpoint of our guidance range, which I'll cover next, we would expect to end the year at approximately 5x, which is close to the upper end of our preferred range. Based on the strong performance of our hotel portfolio in the second quarter and the items impacting our entertainment business that Colin described, we have revised our full year guidance and are also now issuing third quarter guidance. For this third quarter of 2022, we expect our hospitality business to deliver between $125 million to $130 million of adjusted EBITDAre and our consolidated company to produce $137 million to $146 million of adjusted EBITDAre. For the full year 2022, we expect our Hospitality segment to deliver $475 million to $490 million of adjusted EBITDAre. I would point out that this represents an increase of $32 million at the midpoint compared to the $15 million for which the second quarter exceeded our previous guidance. And perhaps most notable, at the midpoint of $482.5 million, this puts our Hospitality segment right at 2019 performance, which is remarkable when you recall what Omicron did to the first quarter of this year just a few months ago. For the Entertainment segment, we expect full year adjusted EBITDAre inclusive of Block 21 to be in the range of $72 million to $80 million. This is a reduction of $8 million at the midpoint, reflecting the factors that Colin described earlier. Lastly, for our Corporate segment, we expect the full year adjusted EBITDAre loss to be in the range of $32 million to $33 million, which at the midpoint is $5 million more than our prior guidance. This change is primarily due to the strong performance of our hotel segment, leading us to accrue for higher incentive compensation this year. The net change on a consolidated basis is to increase the midpoint of our full year adjusted EBITDAre guidance by $19 million to a range of $514 million to $538 million or close to $16 million above our consolidated 2019 results at the midpoint.

With that, I will turn it back over to Colin.

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Thanks, Jen. Cathy -- Casey, let's open up the lines for questions then, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Dori Kesten with Wells Fargo.

Dori Lynn Kesten - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

I had a few questions on the outlook. How much is assumed in Q3 and Q4 for cancellation and attrition fees?

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Dori, it's Patrick. We would expect to see a decline in the second half of the year in our attrition and cancellation fees, somewhere in the $10 million to $20 million range for the second half of the year is probably where we're going to end up.

Dori Lynn Kesten - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And was the reduction in the Entertainment outlook, was that solely due to the later-than-expected closing of Block 21 and just the plans that you had, I guess, we're not able to put in place or was there anything else that was driving that?

Mark Fioravanti - *Ryman Hospitality Properties, Inc. - President & Director*

Well, the delay in Block 21 in its integration is a portion of that. As the business has re-ramped from COVID, we've seen some impact from the tour and travel business, as Colin mentioned, that's impacting Opry attendance as well as our daytime tour business at the Opry and the Ryman. Colin also mentioned in the script that availability of artists with the artists touring post-pandemic, that increased schedule has reduced availability for some of the A-list artists at the Opry House. And then we've seen some softness, particularly in Orlando as it relates to our Ole Red there. That Ole Red is located near the Convention Center. Convention traffic there is running a bit below pre-pandemic levels. So that, combined with the tragedy that occurred in Icon Park a few months ago is having some implications for that location because we are located in Icon Park as well. So all those issues are really contributing to how we view the entertainment business for the rest of the year. I would say, though, that, that business has performed extremely well as Colin shared on the call through the first half. And as you look at the second half, if you look at the implied second half EBITDAre growth versus '19 at the midpoint, we are projecting 55% growth over 2019 levels in terms of profitability for that business in the second half. So it's a terrific -- that business is having a terrific year.

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Yes. And let me add to this, Mark. Look, we try always to be extremely transparent with you folks, the analysts and the investors. And as you all know, we went through this process last year where we sat down with 10 interested companies that wanted to partner with us on this business. And we built -- they all wanted a plan to be built, we built the plan based upon the way we thought 2022 was going to play out. And what has basically happened is the Omicron wave that hit us in the middle of the winter, December, January, February, was not, frankly, something that we planned for and it had a marginal impact on consumer behavior. This is a timing issue. This is not a fundamental change of the business trajectory. This is a timing issue. The busing business will be back, the group large citywide convention business in the Orlando market will be back. The artists that are out there that have been locked on for 2 years, those folks, they're going to take a breather and come back to Nashville. The other part of all of this that I really love with all of these artists all over the country and internationally playing is that they're creating new fans that we can then turn around and bring back to Nashville. So this is a timing issue. The fundamental change to our hotel business is so exciting because what we've essentially done here is we have rerated the hotel industry outside of the hotel business here over the last 1 to 2 years. This is why we are seeing big leaps in leisure rate. People are now prepared to pay the rate that we are putting before them for the fabulous array of stuff that we put into our hotels. And our group side is just getting stronger and stronger by the day. And our July group room night production was very healthy at about $110 million -- 110,000 room nights produced. And Patrick, what was that rate growth over '19?

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Over '19, our July production was up about $58 or about 29.8%.

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

So the Entertainment business, this issue is a timing issue. And Block 21, we look really forward to getting the hotel redone, sitting down and planning the Moody Theater renovation that we will do. This is a timing issue, but we're very excited about the underlying trajectory of this company. I know that was a long-winded answer to a very short question, but I thought I have to give it to you.

Dori Lynn Kesten - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

That's fine. Is it fair to say then, just to summarize all that, that as compared to 3 months ago, your outlook for the hospitality business next year, I guess, your internal outlook has improved and perhaps the Entertainment outlook is unchanged, again, for next year, not '22 where there's perhaps time issues?

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

I think our view of the Entertainment business next year hasn't changed for next year, given some of this delay in the recovery. I think our business next year is going to be very good. And we're having many different discussions. We have our friends from Atairos here, Wednesday evening and Thursday. And we've got many interesting ideas on how to improve this business and grow it further. So no, I'm pretty excited about it for 2023.

Operator

Our next question will come from Smedes Rose with Citi.

Smedes Rose - *Citigroup Inc., Research Division - Director & Senior Analyst*

I had a couple of questions. The first one, maybe just kind of as we think about the outlook for the rest of the year. Can you just help us think about what's sort of the effective tax rate would be at least relative to our forecasted taxes were a little higher in the quarter? Just kind of trying to think about that going forward?

Jennifer L. Hutcheson - *Ryman Hospitality Properties, Inc. - Executive VP, Corporate Controller, CFO & CAO*

Smedes, this is Jennifer. We do have a reconciliation for adjusted EBITDA in the supplemental schedules or earnings release, that shows you a line for kind of the combined total tax provision for what we're projecting for the year, just kind of the reconciliation for our full year guidance. And as you noticed, it sounds like that that number is a little bit higher than what we've typically seen in the past. And I guess one unfortunate byproduct is having your hotel business do so well as a higher income tax bill that kind of comes with that. So the other thing that impacted that estimate is kind of the timing and the rapid ramp of this recovery kind of limits your ability to maybe manage your taxes within a particular given year. We have had a fair amount of NOLs that have built up over the years, and we've been steadily utilizing those and those will start to wind down. And the unfortunate news is as well -- and we've created new NOLs, there has been recent tax laws that have been enacted that limit the amount of those NOLs that you -- those new NOLs being created that you can apply in a given year, although they can carry forward indefinitely now, which is the upside to that. So again, that's a little bit of a timing issue as well. So a little bit of an anomaly in 2022. We may continue in the future to be relative to historical periods where we were able to utilize more of our NOL higher than the prepayment and level taxes, but probably a little more stabilized level than what you're seeing what we're going to see in 2022 in terms of tax -- cash taxes.

Smedes Rose - *Citigroup Inc., Research Division - Director & Senior Analyst*

Okay. I appreciate that. And then, Colin, I just wanted to ask you a big picture and you've talked to this before, and I know it's probably a couple of years out, but with Chula Vista now breaking ground. And they've talked about the number of room nights they expect to book and kind of their goals. I'm just wondering, do you, all things equal, would you expect now for some of your groups that you've talked about rotating through the Gaylord resorts that you start to see gaps now as they start to include Chula Vista in their lineup or do you think that's not necessarily something to be kind of concerned about over the next couple of years?

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Smedes, it's Patrick. No, we do not expect to see any negative impact from Chula Vista, quite the opposite. If you recall, what we did with Gaylord Rockies when we started the presales on that property was we set a very aggressive acquisition target. So to make sure that the new hotel is bringing in new groups that the brand had never been exposed to. The second part of that is to make sure that the existing groups that are already traveling through our hotels are simply adding to their rotation. So if we had a group that was hitting some of our East Coast properties and we're missing out on the West Coast rotation, we now pick up their West Coast rotation. So we've been very clear both when we were opening Rockies and as Chula Vista prepares to start their sales effort to get those aggressive acquisition targets out there and to monitor very closely to make sure that we are having the sales at Chula Vista be accretive to the brand overall, and expanding the overall rotation of a particular group through the brand. So we definitely don't see that as a negative. We think it is a plus for the entire brand long term.

Operator

Our next question will come from Patrick Scholes with Truist Securities.

Patrick Scholes

My first question, you had mentioned some sizable cancellations at the Opryland in 2Q. I'm just wondering what was driving that? Was there any common themes behind that? That was my first question.

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Yes. Just to clarify, what was being spoken to was that we saw cancellation collections decline versus the second quarter of '19 at Opryland. So what really was going on with an anomaly in the second quarter of 2019 at Opryland, where they had 2 very large groups cancel and we were able to collect on both of those. And so, it set sort of a high watermark in terms of collections in the second quarter at Gaylord Opryland. So we didn't see an increase in cancellations at Opryland per se in the second quarter of '22, we are just referencing why we saw a decline in collections '22 versus 2019.

Patrick Scholes

Okay. I misheard you. Thank you for the clarification. And then my next question, Colin, and I'm pretty sure I know the answer to this, but there is -- when we look at supply versus -- for various cities, Nashville continues to lead the way. Historically, supply because you have a differentiated product has not been an issue. Would you assume that, that would be the case of the new supply coming in this year and next year?

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

As far as Nashville is concerned?

Patrick Scholes

Yes, Nashville. When I look at the lodging econometrics it does have Nashville as proportionately the greatest amount of --

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Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Yes. Yes. Patrick, we could spend 20 minutes talking about Nashville here. I've got a meeting today, lunch meeting with the head of the airport because they just approved a new expansion of the airport going on top of the one that they're just finishing, another $1 billion expansion. And the reason for it is Nashville does not have enough gates to accommodate the demand for flights coming into this town. And so, the issue of supply in this market has got to be addressed by what do you think is happening on the demand side. And what we're seeing is unprecedented demand right through this market. And it is quite amazing, the demand for hotel rooms, Airbnbs in the city of Nashville. And the reason for it is people are discovering this product called music that we have here all across the nation. I'll give you a silly example. Garth Brooks' Manager, Randy Bernard told me that they have gotten back about 1.5 months ago from Ireland the 2 of them, where they launched 5 concerts. They're going to do 5 concerts in September in the Irish rugby football stadium in Dublin. And they sold 400,000 tickets in the space of 6 hours. And at the end of it, they had 80,000 on the wait list. That's 12.5% of the population of Ireland wanting to see Garth Brooks in Dublin. And this is going on all across Europe or all across this country. These artists are out in the communities, doing what they do so well. And people want to turn around and come to Nashville. And this is the reason why, frankly, Patrick, you've seen some of the enormous sales on a per room basis that we've seen in this market over the course of the last 3 or 4 months, hotels trading at somewhere between $0.5 million and almost $1 million a key in Nashville, Tennessee. And so, am I concerned about another 3,000, 4,000 hotels rooms being built, frankly, at a 200 rooms here, 300 rooms here, am I concerned about that? This is not going to touch the group business, but it's going to allow more accommodation of the leisure business. And by the way, when you look at all of the entertainment assets that we have in this town, the more consumers come to Nashville, the better our Entertainment business is going to perform. So it's a long-winded answer of saying, we love what's going on here.

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

And I would just put a fine point on it by saying a lot of our transient business is driven to enjoy our holiday programming and our summer water park and water features here at Opryland. And so that's a lot of local and regional business. And so, the new supply that's coming in does not really give us a lot of concern because they do not have the type of programming or the type of attractions that we have in Gaylord Opryland that continues to drive that local and regional business in. And then to Colin's point, very little of that group focused as far as the new supply. It's mostly downtown located. And so, it really doesn't cause a great concern for us.

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

I'm starting to move out into the suburbs now because of the extraordinary cost that is going on for real estate. And so we're seeing hotels being built, Green Hills and Brentwood, it's just going to add to the allure of this town. So no, I think this is -- what is going on is good stuff.

Operator

Your next question will come from Shaun Kelley with Bank of America.

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Shaun Clisby Kelley - *BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst*

I just wanted to ask about the demand outlook, specifically on what number caught our eye which is the up 11.5%, if I caught it correctly, for 2023 group revenues on the books. I just want to unpack that a little bit. First, 2 parts. First would be, could you just talk a little bit about -- I believe that's really a RevPAR, but could you talk a little bit about what you're seeing on sort of the outside of the room or the ancillary spending that kind of goes into the total RevPAR formula. What are you just seeing from groups in your mix between corporate and association? So how is that trending relative to the kind of underlying rate growth that you're seeing?

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Yes, Patrick can deal with that. And then, Pat, you may also want to just remind everybody even though we're talking up 11% for next year over '19, talk about what we think next year's leisure rate will be over '19.

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Yes. So let's take each one of the -- from an outside the room perspective, what's on the books for next year is really just the food and beverage minimums in addition to the rooms. But I'll tell you that the trends that we've seen in the second quarter and what we are anticipating for the remainder of year, that gives us a lot of encouragement. We're seeing the group room contribution on the banquet side, continuing to increase. We're seeing numbers from a lot of groups that being back to '19 or in some cases, exceeding 2019. And then as we continue to push pricing, we think that outside the room, we'll continue to see a real positive trend. So groups are definitely very quickly moving back to spending the same levels or more than they did previously with us back in 2019 pre-pandemic. From a mix perspective, we think 2023 is going to be more favorable than 2022. We're continuing to watch that. Obviously, we have a lot to book here in the next 6 months. And so, we'll be watching it closely with our sales team. But from a leisure perspective, to Colin's point, I would -- I guess I would note just what we did in the past 7 days, our ADR on the leisure transient side was an all-time high at $305 across the brand over the past 7 days. So we continue each week to see either as solid as the week prior or setting new records. And so, from a leisure perspective, we're very encouraged. Obviously, it won't last forever, but we are making sure that we continue to make improvements and enhancements in the hotels, so that we're continuing to improve the value proposition long term so that even as rates may start to slow from a growth perspective, we have reasons to continue moving our pricing or at least hold.

Shaun Clisby Kelley - *BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst*

Great color. And then just as the follow-up, so for thinking about this level of demand into next year, can you help us think about the cost environment. So Mark gave some detail on this in his prepared remarks. But just help us think about the bridge of sort of how much cumulative inflation we should be thinking about? So it's a fancy way of saying, are margins sustainable as we think about kind of the remaining 2 quarters, this quarter and the remaining 2 quarters of this year heading into next, or do we need to be thinking about pressures there as it relates to the inflation side as a partial offset to the growth you're seeing on the top line?

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Yes. So this is obviously stuff that we spend a lot of time thinking about and certainly our hotel business having very extensive discussions with our friends from Marriott. We took an initiative last year basically with Marriott to say we've got to reengineer the organization of these massive hotels that employ anywhere from 1,250 to 1,750 people. And we've been able to do that and particularly on the labor side. And Mark, do you want to talk a little bit about what we've been able to accomplish on the labor side and what we believe the impacts of that would be for next year?

Mark Fioravanti - *Ryman Hospitality Properties, Inc. - President & Director*

Yes. I mean as Colin said, we work with Marriott to restructure leadership, which is really supervisors and above. And where we're currently tracking in the second quarter, our total leadership, the headcount across the portfolio is down a couple of hundred about 15%. So there's some efficiencies created there. It also creates opportunities for those leaders to have an increased spend in control. So as you think about leaders growing their career and developing their skills, it creates great we think a higher quality leader that move up through the ranks. So we have a decline in management costs -- if you look at the second quarter, our hours per occupied room was down about 10%. So we're seeing some more efficiency there. And then as I mentioned in the remarks, our wage rate was up about 19%. But when you look at the wage margin in the second quarter, it actually improved 50 basis points. So all of these efficiencies, coupled with some of the pricing strength that we've seen, certainly, we think that the margins that we're seeing are sustainable and in fact, will expand as we go through this year and next year.

Operator

Our next question comes from Jay Kornreich with SMBC.

Jay Bradley Kornreich - *SMBC Nikko Securities America, Inc., Research Division - Research Analyst*

Congrats on the quarter. So the leisure transient segment has clearly been quite strong for you with the record ADRs you guys talked about and perhaps you may want to retain a greater exposure to the segment going forward than the 28% of demand historically. But as we're facing some macro headwinds in periods of recession, which you gave some commentary on, do you think we're trying to lean more into the future group bookings, which may be more sticky, or is the thought to continue to push the leader demand kind of as much as you can while you can?

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Yes, another very good question, another question that we spend a lot of time thinking about. So first of all, on the group side, when you think about this core group of consumers that we really focus on, which is the 600-plus at peak, we have such a short small market share of these groups. And if we can generate 80 to 100 of those groups per hotel per year, these hotels run at about 80 points of occupancy. And our goal is to absolutely generate that level of sustainable group demand into these hotels. That's why over COVID, we have sat with our friends at Marriott and said we want to increase the quality and the quantity of group sales bodies that are focused exclusively to our particular brand, and we've done that. And that's one of the reasons you're seeing production levels where they are. And we've also been, I think, looking after these hotels the way we have, the refurbishment of these hotels, we're able to get this jump in rate that we've seen here over the last 12 to 24 months. Now on the other hand, the leisure side of the business, we've become a lot more excited about because we have been able to change the rate structure over the last 24 months by about $50, $60 per room sold. And we've also tested the thesis through (inaudible) SoundWaves, and what that has done, what the amount of rooms it's generated outside of the room spend. So I will tell you this that we spent a lot of time over the last few months thinking about the next things that we do to stimulate the leisure side of this business because we're not satisfied as a company running these hotels at 80 points of occupancy, 75 to 80 points of occupancy. We want to push that occupancy up and improve the profitability of these hotels. So I don't think you're going to see a major change in the percentage of leisure business that we're doing, but I think you're going to continue to see us adding amenities, upping rate, improving profitability. And I think we may put more resources to the group side because our sense is that the way we have treated the meeting planner through COVID, then the meeting planning community likes what we are doing. And so, I know that's getting a long-winded answer to a very -- it sounds a simple question, but it's a very complex question. And I really do think that we can gain share in group, but I think, at the same time, by improving the amenities grow leisure room nights too.

Mark Fioravanti - *Ryman Hospitality Properties, Inc. - President & Director*

Well, when you look at the second quarter, our mix was essentially 75% group, 25% transient. So it's pretty consistent with our historic mix. And when we look at transient room nights quarter-over-quarter '19 versus '22, they're essentially flat. So it's -- we are through investment, we are driving better rates on transient, but we're not -- we haven't kind of artificially leaned into transient to drive occupancy. It's really our business coming back to its kind of post-pandemic or pre-pandemic form, but we've been able to reprice the business.

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Yes. And I would say that for the full year, just a further expand to Mark's point, we would expect to be about 70% group, 30% transient. So to both their points, we're really just trying to grow the overall pie, not shift the mix between the 2 segments.

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

We'll keep pushing the living daylights out of rate.

Jay Bradley Kornreich - *SMBC Nikko Securities America, Inc., Research Division - Research Analyst*

Got it. That's all really helpful color. And then I guess just specifically on the Gaylord National, you guys gave some commentary on that. It's been a bit of a lagger, but you have a nice pick up to that 64% occupancy in the second quarter. Just any thoughts you can provide in terms of how you see that trending in the second half of the year and into next year?

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Do you want to take that one?

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Yes. Yes. We're really pleased with how -- National was closed an additional 16 to 18 months longer than the remainder of the brand. And so, a little bit more challenged as far as recovering in the D.C. market has shown some challenges in recovering. But we're very pleased with where it's heading. Obviously, that hotel relies a little bit more on the group side. But what we've been able to accomplish during the shutdown period and since it's been reopened, is to increase the flexibility in operations to refresh the product, both in rooms and food and beverage to upgrade the quality of our management team and to really recast the culture there. So we expect to see Gaylord National continue to recover and I would say 2023, our expectation is that it will be a very favorable year and that hotel should be catching back up to its 2019 levels and potentially exceeding them similar to what the rest of the brand has done already this year.

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Katie, we're almost at the top of the hour. Maybe time for one more question, if there is one. If not --

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Operator

Yes, sir. Our last question will come from Bill Crow with Raymond James.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

I apologize, I have a couple of questions. Feel free to give us short answers. Just a clarification on the cancelation and the attrition fees. Are they recognized when they're actually paid or are they -- when it occurs in the actual quarter, I'm trying to see what sort of lag we're dealing with and kind of the anticipation for the third quarter?

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Yes. We only recognize the revenue once it's actually received. That may correspond to when the room nights were supposed to travel and may not, but we only recognize the revenue once it's received.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

So it's possible you could double book, right? You could double dip and resell the rooms? Is there some of that that goes on?

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Yes. There is some groups include rebook clauses so that if we do book additional rooms or groups into the pattern that they've left open with their cancellation, they get some credit for that. Some groups do not include that in their contract. So there are opportunities to potentially double dip at times.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

Patrick, I'm going to stay with you. Just help me understand whether we should be really excited about the fact that the 601,000 rooms that we booked in the second quarter is terrific and the headline 15% up from '19 sounds terrific. But if these rooms are all booked for 2024 or 2025, I don't know that, that 15% keeps up with inflation. So help us understand about how we should feel about that number there.

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Yes. That's a great question. And the reality is, we're not to the level that we need to be yet. We are ramping. The sales team is incentivized this year to start pushing group rate and they've started moving in that direction, and we've seen great results. But to your point, we still have a ways to go. So if you think about it as a C-130 trying to get off the runway, we've got them mobilized. We've got them focused. They're getting great results, but there's still a lot of runway to get down before we get the plane fully up in the air. So we would expect to see group rate continue to grow. And then we'll see whether or not we actually end up in a better position, maybe if a recession does occur, which is not a good thing, but it could slow down the inflationary environment, and we end up with a group rate much higher on the books than what actually materializes post-recession.

Mark Fioravanti - *Ryman Hospitality Properties, Inc. - President & Director*

It's important also to note, Bill, that when you consider in the year for the year group transient business and outside the room spending, the vast majority of our revenue is actually transacted in the year. So we do have the opportunity to move pricing in those areas and combat inflation if it continues to run at a high level.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

Yes. No, I appreciate that. And Colin, maybe for you, my last question, just on the Entertainment side. Tours are normalizing, I guess. I don't remember, in all the years that we've covered you, you've talked about touring impacting your ticket sales at the Opry. I'm just -- this is something new, at least that I am hearing and I'm just curious whether there's maybe so many downtown options, is that also impacting demand?

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Yes. So what happens in a non-pandemic environment is that artists will do -- the big artist will do a stadium tour every other year. The not so big artists will do a arena tour every other year. And that's just the way the cycle works. And so, there's always a few artists that are not out on the road.

What has happened here is nobody has been out on the road for the last 2 years. And so everybody now is out on the road. I mean that's just what is going on here. And it's just a little bit more of a challenge and -- but it's not something that is going to be with us for a long time. I mean, it just isn't.

Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Yes. The only thing I would add to it is the hotel has seen the same thing. We have a lot of tour and travel business that comes through in the fourth quarter that comes to see both the Opry as well as the holiday program into the hotel. It is a little bit older demographic. And so, they've been a little bit more hesitant to get back out on the road and travel around. These are the buses that have a little bit older demographic on them. And so, we expect to see them come back, but it will probably be 2023 before that segment fully recovers. So we've seen it consistently both of the hotels as well as what's seen at the Opry.

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

Yes, some of these bus operators are having a terrible time through the pandemic. I mean these older folks are not out driving around America. It's just -- it's in the process of recovering. But look, the point that Mark made here, Bill, in his comments a few minutes ago, our business is up tremendously over pre-pandemic levels. And this business is going to be really good next year and really good the year after. And we've just got a little bit of a timing issue around the edges. It's the opposite of what's going on in our hotel business.

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

I understand we've got one more question.

Operator

Our next question will be from Chris Woronka with Deutsche Bank.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

Really appreciate you squeezing me at the end there. Colin, this is more of a, I guess, a hypothetical question. I mean, we -- 2 years ago, we were thinking about what group business is going to look like in the future and here we are, you're getting good rates. But the question is, has behavior groups, do you see a changed at all? Maybe it's a geographic question, maybe it's a type of group kind of question. But are you seeing any changes want to utilize the group meeting space?

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

The answer to the question is that there are so many groups that absolutely want to get back to meeting. People have recognized that being locked up in a basement is not ideal for long-term health and viability of businesses. And we're seeing a lot of groups wanting to meet. That's just -- it's what we're going on. Patrick, you were at a big sales meeting a couple of weeks ago. You want to just --

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Patrick Chaffin - *Ryman Hospitality Properties, Inc. - Executive VP & COO - Hotels*

Yes, absolutely, Chris -- Chris, it's good to talk to you. I will tell you, we've talked a lot of meeting planners. Our sales team has talked to a lot of folks. In fact, there's a huge event going on here in Nashville right now with CIMA 2022. And there's been a very consistent message back from meeting planners. And that is, yes, we understand there are recessionary fears. We understand the volatility that we've seen in the second quarter. But until that materializes and we absolutely have to take different action, we're going to continue to meet because we are way, way behind and backlog in getting our groups together and it is hurting our businesses, and so we've got to get folks face to face again. And I would tell you, I mean, it kind of proves itself out in what we saw in the second quarter. When you think about the amount of volatility in the markets, the amount of uncertainty and economic fears out there in the second quarter, and yet our groups picked up much better than we were expecting and what we had washed them down to. So they materialized in greater numbers. They've materialized with better outside the room spend than we anticipated even in the midst of all the volatility and uncertainty that was going on in the second quarter. So what they're saying to us is very clear. We're going to continue moving forward and try to cut down on that backlog of meetings. And if we have to take action, we'll take it at the appropriate time. But I think one of the messages I've heard over and over again is that we've seen the value of meeting face-to-face, and we need to make sure that, that doesn't disappear from our horizon at any point in the future.

Colin V. Reed - *Ryman Hospitality Properties, Inc. - Chairman & CEO*

All right. I think, Katie, we're done. Appreciate everyone being on the call this morning. If you have any follow-up questions, you know how to get hold of us. So I appreciate everything. Thank you. Have a good day.

Operator

Thank you, ladies and gentlemen. This concludes today's event. You may now disconnect.
